ASTORIA FEDERAL SAVINGS

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June 27, 2005

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention No. 2005-14

Re: Interagency Proposal on the Classification of Commercial Credit Exposures, OTS Document No. 2005-14

Gentlemen:

Astoria Federal Savings Bank is pleased to have the opportunity to comment on the proposed interagency proposal "*Uniform Agreement on the Classification of Commercial Credit Exposures*" (the "Proposal"), issued March 28, 2005, which will create a new loan rating classification and reserve system for commercial credit exposures. Astoria Financial Corporation (the "Company" or "we"), the holding company for Astoria Federal Savings and Loan Association ("Astoria Federal"), with assets of $23.4 billion, is the second largest thrift institution headquartered in New York and the fifth largest thrift institution in the United States. The Company operates 86 banking offices in New York. The Company also originates mortgage loans through loan production offices in New York, an extensive broker network in 19 states, and through correspondent relationships in 44 states.

After reviewing the Proposal, Astoria Federal has determined that it could implement the Proposal without major disruption to existing credit review practices. That said, we feel the Proposal is an attempt to dislodge and reshape a system that does not, in our opinion, need revamping. Our most serious concern, however, is the Proposal's failure to adequately address the complexities in rating commercial real estate loans. Our observation that the Proposal does not readily lend itself to the analysis, evaluation and rating of commercial real estate loans is supported by the absence of any examples related to commercial real estate loans in the Proposal.

The comments which follow are ordered to correspond to the specific issues raised in Vol. 70, No. 58 of the Federal Register, dated March 28, 2005.

1. ***Implementation.*** The Company could implement the approach presented in the Proposal to revise the classification system for commercial credit exposures. However, the amount of time it would take to retool the loan rating process and retrain lending and credit review officers and staff is indeterminable at this time.

2. ***Reasons for not Implementing.*** Not applicable to Astoria Federal.

3. ***Cost to Implement.*** It would be difficult to quantify the cost to retrain lending and credit review officers and staff in the proper use of the proposed methodology and ratings at this time. We also anticipate that additional costs would be incurred to restructure systems to capture both the borrower and facility dimensions of the new classification system. The Company does not believe the benefits to be derived from the change, given the adequacy of the current system, outweigh the potential costs.

4. ***Provisions of the Proposal Requiring Significant Costs.*** The systems the Company uses to manage its credit review function would have to be retooled to capture additional data elements in the proposed two dimensional system. While the programming costs to accomplish this are indeterminable at this time, it is anticipated that they could be significant. We would also expect that the time expended to review an individual credit using the methodology prescribed by the interagency Proposal would increase by approximately twenty percent.

5. ***Clarity of the Examples.*** Generally, the examples provided sufficient insight into grading commercial credits. Noticeably absent, however, was guidance related to commercial real estate.

6. ***Additional Illustrative Examples.*** The examples should be expanded to provide specific guidance for rating commercial real estate credits. Metrics that need to be illustrated include but are not limited to tenant composition, vacancy, and loan-to-value, debt-coverage and break-even ratios.

7. ***Guarantors.*** Our interpretation of the interagency Proposal is that guarantors could *"step into the shoes"* of a borrowing entity, which would enable an institution to assign a rating based upon that guarantor's ability to perform. Conversely, should the guarantor be in default with respect to any of its obligations, the subject credit could be downgraded, irrespective of the borrower and/or facility components of the loan grading system. Additional clarity is needed with respect to this issue since it has the potential to adversely impact those institutions with large commercial real estate portfolios. Currently, our institution takes a synergistic approach to loan review and our ratings are a composite of performance, financial information, future financial capacity and collateral value. Minimal importance is accorded to a guarantor's compliance or lack of compliance to terms.

In summary, while we support a rigorous credit review process and place a premium on asset quality, we oppose the interagency Proposal in its present form. The final framework that is adopted must address and provide specific detail with respect to rating commercial real estate loans. In addition, the recommended allowance percentages should be used as a guideline and not mandated since individual institutions must continue to have the latitude to formulate loss allowances in a manner they deem appropriate.

We appreciate the opportunity to comment on the issues contained in the joint notice and request for comment.

Respectfully submitted,

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Alan P. Eggleston
Executive Vice President &
General Counsel

Peter M. Finn
First Vice President